

EXHIBIT NO.

1

DATE:

1/14/13

BILL NO.

SB 12

Program Description

The Health Care and Benefits Division provides state employees, retirees, municipal judicial branch employees, and their dependents with group benefits in an efficient manner and at an affordable cost by administering a solvent, prudent benefits program. The division administers benefits plans including health, dental, prescription drug, life, long-term care, vision coverage, long-term disability, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. Finally, the division is responsible for the centralized oversight and management of workers' compensation related matters impacting the state as an employer.

Program Highlights

Health Care & Benefits Division	
Major Budget Highlights	
♦	The Health Care and Benefits Division is entirely funded with proprietary funds
♦	The executive proposes increases to the state share contributions in HB 13. The employer state share partially funds the cost of the state employee group health care
♦	FY 2013 rates include reductions for the impact of the Helena employee health clinic
Major LFD Issues	
♦	Statute requires that the administrative costs of the program be included in HB 2

Program Discussion**LFD
ISSUE**Statute Requires Administrative Costs of the Program to Be Included in HB 2

As detailed in the funding section below, this function is funded through proprietary funds. The 1995 Legislature changed the way proprietary funds are budgeted. Rather than directly appropriate funds in HB 2 to support the function, the legislature removed proprietary funds (with very limited exceptions) from HB 2 and instead provided funding through one of two means, depending upon the type of proprietary fund:

- Internal services funds – The legislature approves a maximum rate the function can charge to client agencies. Most of the funding for this division is from this type
- Enterprise funds - The legislature does not approve rates for the program; instead, the legislature reviews the report submitted by the executive and identifies any concerns with the financial position of the fund

Even though the funding is from the proprietary fund, 2-18-812, MCA requires that administrative costs of the State Employee Group Health Plan be funded from temporary appropriations. Appropriations made in the General Appropriations Act (usually HB 2) are considered temporary appropriations, as they expire at the end of each biennium and must be considered and approved by the following legislature.

A review of HB 2 shows the executive has not included the administrative costs in the bill but rather considered the appropriations part of the proprietary funding that is budgeted through statutory authority and not routinely considered by the legislature each biennium. The division also relies on authority included in 17-8-102, MCA that allows for funds to be disbursed if established on the state's accounting records. This practice has been in place since the change in budgeting for proprietary funds.

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**LFD
ISSUE**

The LFD requested a legal opinion from legislative legal staff on the question of where the costs for administering the program should be budgeted and received the following:

"Question Presented

Whether § 2-18-812, MCA, requires that administrative costs related to the State Employee Group Benefit Plan be made from temporary appropriations, as described in 17-7-501, MCA.

Short Answer

Yes, § 2-18-812, MCA, specifically provides that costs for the administration of SEGBP be made from temporary appropriations. While § 17-8-101(2), MCA, generally allows for funds to be disbursed if a subclass is established on the Statewide Accounting, Budgeting and Human Resource System (SABHRS), § 2-18-812, MCA, controls because it identifies a particular legislative intent with regard to administrative costs related to SEGBP." For the entire legal opinion please refer to the Appendix for the Department of Administration.

Figure 18 shows the costs that should, by statute, be included in HB 2.

Figure 18

Department of Administration Health Care and Benefits Division Health Care Administration				
	Actuals FY 2012	Budgeted FY 2013	Budgeted FY 2014	Budgeted FY 2015
FTE	19.64	13.87	19.64	19.64
Personal Services				
Salaries	\$1,003,354	\$758,728	\$1,030,831	\$1,035,117
Employee Benefits	326,213	123,078	165,669	164,288
Health Insurance	0	123,144	173,891	173,891
Vacancy Savings	0	(40,197)	(54,816)	(54,933)
Total Personal Services	1,329,567	964,753	1,315,575	1,318,363
Operating Expenses				
Other Services	596,570	1,148,481	655,401	646,584
Supplies and Materials	73,906	83,514	72,233	72,301
Communications	72,806	98,048	69,197	70,183
Travel	18,565	11,084	18,484	18,510
Rent	102,468	108,279	102,468	102,468
Repair and Maintenance	439	1,780	439	439
Other Expenses	144,314	224,221	199,335	198,866
Total Operating Expenses	1,009,068	1,675,407	1,117,557	1,109,351
Total Administrative Costs	\$2,338,635	\$2,640,160	\$2,433,132	\$2,427,714

**LFD
ISSUE
CONT.****Legislative Option:**

Include the costs of administering the program in HB 2 as intended by statute.

**LFD
COMMENT**

During FY 2012 the division contracted for an employee health center in Helena, a new healthcare delivery model being piloted in Helena. Statute allows the division to establish alternatives to conventional insurance for providing state employee group benefits. Under the new model, active employees covered on the state's health plan and their dependents age two and over covered on the plan may receive:

- Primary care
- Same day services
- Urgent care
- Health screenings
- Flu shots
- Health coaching

Retirees may have health screenings and flu shots at the health center. To encourage use of the facility copayments are not incurred by employees for services offered by the center.

The change in the health care delivery model was not considered during the 2011 Legislative Session and raised concerns with members of the legislature in relation to:

- Lack of transparency
- Poorly defined scope of services
- Financial commitments associated with the center

The division provided a written response to the concerns addressed to the Senate President and the Speaker of the House. See the Appendix for the Department of Administration for the response.

In addition, the State Administration and Veteran's Affairs Interim Committee (SAVA) discussed the implementation of the employee health center with the division as part of its oversight responsibilities during the interim. The SAVA committee requested a bill to require that expenditures and alternatives for providing state employee group benefits be subject to legislative approval and appropriation.

As shown in Figure 18, the division increased the number of permanent full-time FTE for the program by 5.77 FTE. The following positions were added:

- Computer Supervisor – 1.0 FTE
- Computer Support Specialist – 1.0 FTE
- Benefit Technicians – 2.0 FTE
- Accounting Technician – 1.0 FTE
- Communications Specialist – 1.0 FTE

Four of the positions were transferred from the State Human Resource Division (SHRD). In previous biennia, under a memorandum of understanding the division paid the salaries and benefits of the positions to the SHRD and the individuals worked for the division. Since the positions and appropriation authority were transferred to the division the memorandum is no longer needed and the positions are included in the division that benefits from their work. This change is the reason for the reduction in other services costs and part of the increase in salaries. Two positions were transferred from the General Services Division Print and Mail Services Bureau. The positions were no longer needed due to changes in technology and business processes (for a further discussion see the narrative for that bureau). Until this biennium, the division was using a modified position for an accounting technician.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Health Care & Benefits Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
Proprietary Total		\$0 \$374,065,725		\$0 \$374,065,725	100.0%		
06027 Flexible Spending Funds	\$0	\$14,523,400	\$0	\$14,523,400	3.9%		
06559 Group Benefits Claims A/c	\$0	\$358,996,567	\$0	\$358,996,567	96.0%		
06575 Workers' Comp Management Program	\$0	\$545,758	\$0	\$545,758	0.1%		
Total All Funds	\$0	\$374,065,725	\$0	\$374,065,725	100.0%		
Percent - Total All Sources	0.0%	100.0%	0.0%				

Proprietary Funding

As shown above, the division is entirely funded from proprietary funds, which are not appropriated in HB 2. The various accounts provide for two programs and a third function within the division:

- Health Care Benefits Bureau provides oversight and administrative functions for the state employee group benefit plan, including administration of health, dental, life insurance, and flexible spending accounts. It is funded from the Group Benefits Claims A/c, an account used for the administrative costs of the bureau and benefit and claim costs
 - Workers' Compensation Management Bureau is the central resource for state agencies in working to:
 - Enhance worker safety
 - Provide for loss-prevention
 - Develop and provide return-to-work programs
 - Coordinate workers' compensation coverage and policy management issues
- Flexible spending funds accounts for employee deductions for flexible spending, including medical and child care

Proprietary Rates

The Healthcare and Benefits Division manages two proprietary programs:

- Health care benefits for employees, which includes the state's health and other benefit insurance plans, and contract administration of the flexible spending accounts
- Management of the state agency workers' compensation insurance

Employee Benefits Program - 06559*Program Description*

The Health Care and Benefits Bureau manages the following:

- State employee group benefit health plan
- State employee sick leave fund
- Employee assistance services
- Health promotion
- Voluntary employee benefit health care expense trust

*Program Narrative*Expenses

Significant costs for the program include:

- Personal services costs of \$2.6 million over the biennium to support 19.64 FTE
- Operating expenses of \$2.2 million related to program administration

- Operating expenses of \$12.3 million for the state employee group benefit plan including:
 - \$2.8 million for consulting and professional services
 - \$0.4 million in medical services
 - \$1.2 million in prescription services
 - \$3.9 million for state accounting transaction services
 - \$1.8 million for wellness program costs
- \$341.8 million in benefits and claims including:
 - \$247.3 million for projected medical and dental claims – an increase of 10.27% above the FY 2012 base amount in FY 2014 and 16.7% in FY 2015
 - \$83.3 million for projected prescription drug payments – an increase of 41.5% above the FY 2012 base amount in FY 2014 and 67.5% in FY 2015

Primary cost drivers for both medical and dental claims and prescription drug payments are projected costs and service utilization. The projected budget anticipates cost increases of \$58.8 million over the biennium for medical and prescription drug cost and utilization increases compared to the FY 2012 base budget of \$141.5 million. By comparison the projected budget increase for the 2013 biennium was \$57.8 million over the biennium compared to a base budget of \$101.4 million.

It should be noted that for FY 2012 the projected costs for these benefits was \$131.0 million, or \$10.5 million less than actual costs. Higher costs in the base year were driven by higher incurred medical payments. Measurements related to medical costs for the first six months of the plan year include:

- Medical expenses per eligible participant were up 9.9% for the period January through June
- Medical paid claims loss ratio of 87.7% compared to 78.7% a year ago for active employees. A loss ratio is the amount of health care costs incurred during the year compared to the amount of premium
- Medical paid claims loss ratio of 104.0% compared to 85.7% a year ago for retirees
 - Early retirees medical paid loss ratio of 151.8% compared to 138.5% a year ago
 - Retirees eligible for Medicare medical paid loss ratio of 72.3% compare to 48.4% a year ago

Revenues

The state group plan is self-insured, and as such is responsible for medical costs incurred by its members. The health plan is funded by the state (employer share) and premium payments by members. The state share is \$733 per month and is established in 2-18-703(2), MCA. As a component of employee compensation, the state contribution amount is a subject of collective bargaining and is negotiated as part of the overall pay package for state employees.

Plan revenues from premiums are estimated at \$165.0 million in FY 2014 and \$175.0 million in FY 2015. The state share for the state employee group health plan is budgeted at \$121.0 million in both FY 2014 and FY 2015 or 73.3% of the estimated plan costs in FY 2014 and 69.1% in FY 2015, with the remainder primarily from additional premiums paid by members and investment income.

LFD COMMENT

In June of 2012 the Governor and three public employee unions reached a negotiated settlement that will be presented as part of the executive budget pay plan proposal. The proposal includes:

- Across-the-board pay raises of 5% beginning July 1, 2013
- A further across-the-board pay raise of 5% beginning July 1, 2014
- A 10% increase in the state's health insurance contribution beginning January 2013 for state employees and July 2012 for university employees
- A further 10% increase in state's health insurance contribution beginning January 2014 for state employees and July 2013 for university employees

These proposals are included in the Governor's proposed pay plan bill, HB 13. At the time the unions ratified the agreement, the Budget Director estimated the proposal would cost up to \$138 million in total funds, including \$71 million in general fund. For a further discussion, see Volume 1 of the LFD 2015 Biennium Budget Analysis.

Significant Present Law Adjustments

Anticipated health care cost increases of \$22.6 million in FY 2014 and \$36.7 million in FY 2015 are due to medical, pharmacy, and dental claims and administrative expenses and include:

- Consulting and professional services - \$225,000 each year
- Medical and dental claims - \$11,191,247 in FY 2014 and \$17,203,622 in FY 2015
- Prescription drug payments - \$11,191,246 in FY 2014 and \$18,203,622 in FY 2015

Proprietary Rates

For the 2015 biennium, the following rates are proposed by the executive and are shown in Figure 19. The rates charged in the base year are shown for comparison purposes.

Figure 19

Requested Rates for Internal Service Funds				
Fee/Rate Information for Legislative Action				
	Actual	Budgeted	Budgeted*	Budgeted*
	FY 12	FY 13	FY 14	FY 15
Fee Group A				
State share per employee per month	733	733	806	887
Rates are established to maintain adequate actuarial reserves. Actual state share rates are set for each calendar year as opposed to a fiscal year. This table shows the average monthly state share rate for each fiscal year. Rates for FY 2014 and 2015 have not been determined at this time.				

The rates shown above are the state contribution for each state employee each month. The rates are contained in the proposed pay plan and, if adopted by the legislature, will be included in statute. The various premium costs for the program are not limited through the legislative process but are determined by the division based on actuarial estimates of the claims costs for each insurance type. Any difference between the state contribution and actual costs are made up by employee premiums and investment income. As the plan year for the state employee health insurance is a calendar year, the revenues for the plans are a combination of premiums from two plan years. Figure 20 shows the premiums, by plan year, for a single employee for FY 2012 and FY 2013. For additional rates see Appendix for Department of Administration.

Figure 20

Department of Administration Healthcare and Benefits Division Premium Rates			
Insurance Plan*	2012	2013	% Increase
Health Care HMO	682.00	709.00	3.96%
Health Care Traditional	696.00	745.00	7.04%
Dental - Basic	0	17.50	0.00%
Dental - Premium	34.90	35.00	0.29%
Vision	7.64	7.64	0.00%
Basic Life Insurance	1.90	1.90	0.00%
* Per member, per month			

As shown above, premium rates for health insurance are estimated to increase 4.0% and 7.0% from plan year 2012 costs depending on choice of insurance plan. The division does not forecast premium rates for the FY 2015 biennium. According to the division, the budget is not based on actual plan rates because those rates have not been set.

As shown in the 2015 Biennium Report on Internal Service and Enterprise Funds in the appendix, the premium costs are less than the projected operating expenses of the plan by \$4.3 million in FY 2014 and \$7.9 million in FY 2015. The Governor proposes to use fund balance to reduce the amount of the increase that would otherwise be generated from premium increases. For a discussion on reserve levels, risk based capital, and funding above the recommended reserve level. See Appendix for Department of Administration.

Impacts of the Affordable Care Act in relation to the State Employee Group Benefit Plan are discussed in the Appendix for the Department of Administration.

Workers' Compensation Management Program – 06575

Program Description

The Health Care & Benefits Division manages the Workers' Compensation Management Program. The program assists employees and state agencies in ensuring a safe working environment and reducing on-the-job injuries and accidents in the workplace, and assists employees who are injured in returning to work. The program is the central resource in working with the state's workers' compensation insurer, Montana State Fund, to coordinate workers' compensation coverage and policy management issues.

Program Narrative

Expenses

Significant costs for the program are for:

- Personal services of \$375,492 over the biennium
- Operating costs of \$73,796 over the biennium

Revenues

The workers' compensation management program fees are composed of a fixed cost rate allocated to each state agency based on the average number of payroll warrants issued each pay period. The rate proposed in HB 2 is \$0.82 for each payroll warrant in FY 2014 and FY 2015.

Proprietary Rates

For the 2015 biennium the following rates proposed by the executive are shown in Figure 21. The rates charged in the base year are shown for comparison purposes.

Figure 21

Requested Rates for Enterprise Funds				
Fee/Rate Information				
	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Fee Group A				
Administrative Fee (per payroll warrant)	\$1.09	\$1.08	\$0.82	\$0.82
<p>Program rates have been established to maintain a 60-day working capital. The rates are to be paid by state agencies and are based on a projected number of payroll warrants to be issued.</p> <p>Note: Prior to fiscal year 2010, the program expenditures were included in the General Fund.</p> <p>Note also: This analysis does not include OPEB expenses.</p>				

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

**LFD
COMMENT**

In October 2011 and March 2012 the division did not assess state agencies for the Workers' Compensation Management Program. The fee holiday allowed state agencies to spend the freed up funding in other areas or to revert the funding at the end of the fiscal year. The other impact of the fee reduction was to drive the fund balance negative by \$43,800 at the end of FY 2012. A review of the budgeted costs for the program shows anticipated costs of \$164,306 for consulting and professional services that did not occur in FY 2012, resulting in significant savings on operating costs for the program that was passed on to the state agencies funding the program.

Flexible Spending Account Program – (06027)*Program Description*

The Flexible Spending Account Program allows employees to defer part of their gross pay into an account for reimbursement of qualified:

- Medical expenses
- Childcare expenses

Program Narrative

HCBD contracts to administer a flexible spending account program for state employees, who can set aside a certain amount of their pay into accounts for costs throughout the year. The “set aside” funds are withdrawn from employee pay prior to assessment of taxes, effectively lowering employee taxable pay. Employees must submit claims for allowable expenses to use funds deposited into the accounts. Employees forfeit any unspent funds.

Federal rules govern the use of and the amount that can be contributed to flexible spending accounts. The current contribution maximums are \$2,500 per year for medical and \$5,000 per year for dependent care.

Expenses

Significant costs for the program are for the administration contract.

Revenues

The flexible spending account program is funded from an administrative fee of \$2.26 per month on each account. The fee was waived in the 2013 biennium. At times the flexible spending account program has accumulated additional funds due to forfeited funds. In the 2013 biennium the program used the additional funds to waive the monthly \$2.26 fee charged to participants.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive are shown in Figure 22. The rates charged in the base year are shown for comparison purposes.

Figure 22

Requested Rates for Enterprise Funds				
Fee/Rate Information				
	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Fee Group A				
Administrative Fee (per member per month)	\$0.00	\$0.00	\$2.26	\$2.26
Administrative fees charged and collected from plan participants are determined through the competitive bid process as part of the selection of a plan administrator.				

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.